BC Liquor Distribution Branch

2016/17 – 2018/19
SERVICE PLAN

For more information on the BC Liquor Distribution Branch, contact:

2625 Rupert Street

Vancouver, BC V5M 3T5

604-252-3029

communications@bcldb.com

or visit our website at
www.bcldb.com

Accountability Statement

The 2016/17 – 2018/19 BC Liquor Distribution Branch (LDB) service plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with Government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. LDB is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of February 3, 2016 have been considered in preparing the plan. The performance measures presented are consistent with the Taxpayer Accountability Principles and LDB's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the LDB's operating environment, forecast conditions, risk assessment and past performance.

R. Blain Lawson
General Manager and Chief Executive Officer

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Strategic Direction and Context

Strategic Direction

This past year, as a step toward creating a more modern liquor retail market in British Columbia, the BC Liquor Distribution Branch (LDB) implemented a new wholesale pricing model.

Not only did the move signal one of the largest transformations in the organization's 95-year history – it also has significant implications for the LDB's strategic direction for the future. Never before has the organization been so singularly focused on updating its business, systems and processes.

Looking toward 2019, the LDB is committed to evolving and modernizing in order to be responsive in the changing marketplace and to continue generating valuable returns for the Province. This commitment is necessary in order for the LDB to deliver on its mission of being a customer-centric, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate social responsibility.

Now operating 196 BC Liquor Stores (BCLS) in a highly competitive environment – where liquor retailers purchase liquor from the LDB at a common wholesale price – it is more critical than ever for stores to offer customers an unmatched shopping experience. Going forward, the LDB's retail business will continue to evolve to serve customers better, from enhancing in-store technology to adding refrigeration in more stores and tailoring store hours and product mixes to customer demand.

On the wholesale side of the business – which is now run separately from the LDB's retail operations – the organization continues to set its sights on opportunities that will enable more efficient service for wholesale customers in years to come. Central to this vision is a new warehouse facility, which will allow the LDB to harness the power of modern business processes, supply chain operations and technology to meet growing customer demand. The goal is to have a new warehousing solution for 2019.

Through these dynamic times, the LDB will be guided by direction from Government, as laid out in the LDB's 2016/17 Mandate Letter. The Taxpayer Accountability Principles, announced by Premier Christy Clark in June 2014, formalize the LDB's ongoing commitment to operational measures that strengthen accountability and promote cost control in the taxpayers' best interests.

Operating Environment

Increasingly competitive marketplace

With the introduction of liquor in grocery stores and a new wholesale pricing model this past year, the LDB is operating in an increasingly competitive marketplace. Careful, continued monitoring of the marketplace will be critical in order for the LDB to make appropriate business adjustments and adequately respond to traditional economic pressures that can impact discretionary spending on alcohol.

Clear separation of the LDB's retail and wholesale operations

Internally, in order to support the business' new priorities and separate wholesale and retail operations, the LDB continues to update its systems, processes and organizational structures in a way that increases transparency and cost-effectiveness.

Performance Plan

Goals, Strategies, Measures and Targets

While the LDB is facing increasingly dynamic times, its mission remains constant: to be a customer-centric, profitable retailer and wholesaler of beverage alcohol dedicated to innovation, exemplary service, helpful product knowledge and corporate social responsibility.

To remain successful, the LDB strives toward five goals related to financial performance, workplace quality and employee excellence, customer experience, business effectiveness and corporate social responsibility. These goals are supported by specific strategies and performance measures and are underpinned by the Taxpayer Accountability Principles.

Goal 1: Financial Performance

Meet financial objectives approved by Government.

Strategies

- Grow sales and effectively manage operating expenses.

Performance Measure 1: Net Income

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Net income (in $millions)	935.2	970.1	983.3	994.0	1,003.1

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually. LDB expense data is captured, stored and reported by the LDB's financial system.

Discussion

Net income is the LDB's contribution to the provincial government from the total sales of beverage alcohol in the province and is audited by the Office of the Auditor General of British Columbia. LDB net income is a significant contributor to provincial government revenues. The 2014/15 figures include a one-time gain due to the sale of the property where the LDB's current warehouse in Vancouver is located. The LDB's 2013/14 net income result was $877 million.

Goal 2: Workplace Quality and Employee Excellence

Create a work environment that encourages greater employee engagement.

Strategies

- Enhance staff skills and engagement through leadership development, employee training and increased communication.
- Implement succession management plans for the organization.
- Provide a safe, healthy and harassment-free workplace.

Performance Measure 2: Employee Engagement

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Employee engagement	n/a	70	n/a	71	n/a

Data Source: BC Stats conducts the employee engagement survey for the LDB.

Discussion

The LDB measures employee engagement every two years through the Workplace Environment Survey (WES) by asking employees about their work environment. Compared to global workplace engagement averages which typically hover around 60 per cent, the LDB's 2013/14 WES score of 69 – which is slightly below its target score of 70 – reflects a healthy work environment. Given the widespread organizational changes that are on the horizon, the LDB believes that aiming for a one per cent increase in employee engagement every two years is a challenging target.

Goal 3: Customer Experience

Maintain a high level of wholesale and retail customer satisfaction.

Strategies

- Continuously refresh the store network.
- Continuously provide enhanced customer services.

Performance Measure 3.1: Retail Customer Satisfaction

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Retail customer satisfaction	98%	n/a	80%	n/a	80%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Performance Measure 3.2: Wholesale Customer Satisfaction

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Wholesale customer satisfaction	n/a	n/a	90%	n/a	90%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Discussion

Every two years, BC Liquor Store retail customers and wholesale customers (bars, restaurants and private retailers) are surveyed by a professional survey company to determine customer satisfaction. Due to the importance of customer satisfaction to the LDB's success, targets in the 80 to 90 per cent range have been set for both retail and wholesale customers. Setting a consistently high bar for customer satisfaction ensures the LDB maintains its customer focus and achieving these targets in a customer service environment represents a very high level of satisfaction.

Going forward, BCLS will be honing in on different data to determine its Retail Customer Satisfaction levels, which will make it more challenging to maintain the current performance level of 98 per cent. Historically, the Retail Customer Satisfaction performance measure has been based on customers who rated their experience as "good," "very good" or "excellent." However, going forward, the measure will be based only on customers who rate their experience as "very good" or excellent." This reporting change will enable the organization to hone in on meaningful metrics with greater potential for improvement, but it will also reduce anticipated reporting levels of customer satisfaction from 2016/17 onward. Given this change, the LDB's upcoming targets are realistically set at 80 per cent.

It should be noted that, given the vast amount of ongoing activities related to the separation of the LDB's retail and wholesale divisions and the April 1, 2015 transition, the LDB decided to allow some time for wholesale customers to settle into new processes before conducting the next survey, which is why there is no Actual result for 2014/15 for Wholesale Customer Satisfaction.

Goal 4: Business Effectiveness

Maintain operating efficiencies in a climate of constant change.

Strategies

- Maximize the potential efficiencies available through improved distribution operations.
- Increase the use of current and cost-effective technology.

Performance Measure 4.1: BC Liquor Store Sales per Square Foot

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
BC Liquor Store sales per square foot	$1,046[1]	$1,170	$1,189	$1,207	$1,225

Data Source: BCLS sales data is collected from computerized point-of-sale cash register systems and stored in Head Office databases. Sales made directly to customers by authorized product representatives on behalf of the LDB are transmitted to the LDB and stored in databases. LDB financial statements are audited by the Office of the Auditor General annually.

[1] The 2014/15 actual has been restated here to include only counter customer sales for the 2014/15 fiscal year.

Discussion

This indicator is based on the annual dollar sales of the store system divided by total store system square footage, which measures how well the LDB converts its floor space into sales. This target has been modified to reflect the fact that the LDB's wholesale business is now mainly serviced through the LDB's wholesale customer centres – and not through BCLS, as has traditionally been the case.

Performance Measure 4.2: Distribution Centre Labour Cost per Case Shipped

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Distribution Centre labour cost per case shipped	$1.70	$1.75	$1.76	$1.77	$1.77

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion

This productivity measure is calculated by dividing Distribution Centre labour expenses by total case shipments. Prior to the identification of a new Distribution Centre, additional warehouse space may need to be leased. As a result, the LDB forecasts additional labour costs per case may be

incurred as product moves between Distribution Centres and will be handled more than once. In addition, the LDB sees a continuing trend of a high number of individual bottle picks, further pressuring labour cost per case.

Performance Measure 4.3: Distribution Centre Order Fill Rate

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Distribution Centre order fill rate	91.5%	93%	93%	93%	93%

Data Source: Orders and shipments processed by the LDB Distribution Centres are captured and stored by computer applications designed for this purpose.

Discussion

This is a measure of the completeness of orders filled by the LDB Distribution Centres and is calculated by dividing the number of ordered items that are filled completely by the total number of items ordered. The calculation excludes products that are not stocked by the LDB Distribution Centres. Setting a consistent target of 93 per cent strikes the right balance between the effective management of inventory and the minimization of product stock-outs.

Goal 5: Corporate Social Responsibility

Encourage the responsible use of beverage alcohol and minimize the impact of operations on the environment.

Strategies

- Prevent sales to minors or intoxicated persons in BCLS through staff education and enforcement of ID-checking requirements.
- Promote awareness of responsible use by continuing co-operative programs with suppliers and other stakeholders.
- Reduce the impact of operations on the environment by reducing waste, increasing recycling rates and achieving carbon neutrality on an annual basis.

Performance Measure 5.1: Store Compliance with ID-Checking Requirements

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Store compliance with ID-checking requirements	95%	93%	100%	100%	100%

Data Source: LCLB administers an ID compliance checking program and provides the results of BCLS compliance to the LDB.

Discussion

In fiscal 2011/12, the Liquor Control and Licensing Branch (LCLB) of the Ministry of Justice implemented an ID-checking program for liquor stores that uses underage agents to test compliance. The target of 100 per cent reflects the importance to the LDB of preventing sales to minors.

Performance Measure 5.2: Customer Awareness of LDB Corporate Social Responsibility Programs

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Customer awareness of LDB corporate social responsibility programs	93%	n/a	90%	n/a	90%

Data Source: The LDB contracts with professional survey companies to conduct the retail and wholesale customer service surveys.

Discussion

The LDB encourages the responsible use of beverage alcohol through promotional posters and other materials in stores. Every two years, the LDB measures customer recall of these materials through a survey to ensure the LDB develops impactful and relevant messaging. Setting a consistently high target of 90 per cent for customer awareness of social responsibility programs represents a significant and ongoing challenge for the LDB. As with Retail Customer Satisfaction, the survey tool for measuring awareness of these programs is being modified, which may make it more challenging to meet or exceed 2014/15's Actual of 93 per cent. Given this, the LDB's upcoming targets remain conservatively set at 90 per cent target.

Performance Measure 5.3: Waste Diversion Rate at Head Office and Vancouver Distribution Centre

Performance Measure	2014/15 Actual	2015/16 Forecast	2016/17 Target	2017/18 Target	2018/19 Target
Waste diversion rate	75%	75%	80%	80%	80%

Data Source: *Waste diversion rates represent the weight of material diverted from the landfill through composting and recycling as a percentage of the total weight of waste material generated. Rates will be determined based on measured weights reported by a contracted waste and recycling service provider.*

Discussion

In 2015/14, the LDB developed this performance measure to initially track performance at Head Office and the Vancouver Distribution Centre. Following 2018/19, the performance measure will be

expanded to include diversion rates for BCLS locations and the Kamloops Distribution Centre, calculated either through audits or ongoing weight tracking.

While the LDB exceeded its 2016/17 target of 75 per cent, the 2017/18 forecast remains steady at 75 per cent to account for the fact that waste diversion is a new measure that is being tracked and may be variable year-over-year.

Financial Plan

Summary Financial Outlook

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Key Forecast Assumptions

In fiscal 2015/16, there were several changes to the liquor landscape, including:

- Effective April 1, 2015, the LDB implemented a new wholesale model, eliminated purchase discounts, and introduced a single wholesale price for beverage alcohol retailers. The LDB created two separate lines of business – wholesale and retail, and BCLS stores became a customer of the LDB's wholesale business.
- The LDB will continue to modernize the BCLS stores and many now offer refrigerated products, extended store hours, and Sunday and statutory holiday openings.
- Grocery stores were permitted to sell alcohol after the April 1, 2015 changes took effect. There are currently four grocery stores selling wine from their shelves, with numbers expected to grow in years ahead. Grocery stores can also sell alcohol under the store-within-a-store model; however, none of these stores have opened yet.

Due to these significant changes, the market is still in a process of adjustment, and initial trends observed in 2015/16 may not carry into future years. The LDB's forecast has included the following assumptions:

- Market share and product mix remains stable for all future years;
- The impact of grocery stores has not been included since the number of stores is small to date;
- In fiscal 2015/16, overall net sales growth will be 6.99 per cent, driven mainly by higher volumes due to an unusually hot spring/summer and increased accessibility of beverage alcohol;
- For fiscal 2016/17 and onwards, annual sales will increase by 1.6 per cent due to a combination of inflation and volume growth.

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacements.

In August 2014, the property where the LDB's current Vancouver warehouse is located on East Broadway was sold. The LDB has entered into an agreement to lease the current facility up to August 2019 with the intent that the LDB can relocate the warehouse and distribution operation by the end of the lease. Efficiency gains are expected to come from the new warehouse's additional size, modern and higher racking, improved aisle access, improved receiving and shipping bays, some automation, and an improved working environment.

Sensitivity Analysis

Beverage alcohol is a highly regulated product and its consumption can be influenced by Government decisions such as hours of operation for establishments that sell or serve liquor products and drinking and driving laws, to name just two. These types of policy decisions can have a significant impact on LDB revenue.

The LDB's financial performance is also affected by economic conditions:

- Changes in the marketplace—it is unknown at this time how the introduction of grocery stores as retailers of beverage alcohol will impact the current retail environment;
- Price competition among suppliers of wine, spirits and refreshment beverages—as mark-up on these products is percentage-based, a reduction in the supplier price will result in less LDB revenue, assuming a constant volume; and,
- Beverage alcohol is a discretionary consumer product and sales are affected by economic conditions—consumer confidence dictates the level of entertainment dollars spent on beverage alcohol.

The introduction of a single wholesale price for all retailers, including BCLS, plus expanded hours of operation and refrigeration for BCLS could have an impact on market share.

Weather patterns and the timing of statutory holidays are other factors that influence LDB revenue. A hot, dry summer and long weekends result in increased sales, particularly in the refreshment beverage

and packaged beer categories. Conversely, adverse weather conditions have a negative impact on liquor sales. The day of the week statutory holidays fall on also has an impact on sales—when they fall on Mondays or Fridays, sales are much stronger than when they fall on Tuesdays or Wednesdays.

The LDB monitors all of these factors, using the best information available to ensure sound decisions are made regarding such things as product mix and supply, and the staffing complement required in our retail store locations.

Cost of Goods Sold
Each percentage change in the cost of products in the wine, spirits and refreshment beverage categories has a direct effect on net income of approximately $9 million due to the percentage-based mark-up on these products.

Beer has a per litre mark-up and therefore cost of sales as a percentage of sales will increase with higher beer prices. BC wines have lower gross margins due to the markup policy on direct delivery VQA wines and wines produced from 100 per cent BC grapes. As these two categories grow, cost of goods as a percentage of sales will continue to increase.

Management Perspective on Future Financial Outlook

The 2013 Liquor Policy Review and the resulting recommendations instigated a significant transformation in the marketplace – and that transformation is expected to continue.

Many of the liquor policy changes have been centred around increasing fairness and competition among retailers. For example, industry called for a single wholesale price to increase transparency and eliminate pricing inconsistencies, and this has resulted in a more equal footing for all retailers. An eventual shift in the marketplace will see grocers that meet the regulatory requirements selling alcohol – another change that will increase competition and have a profound impact on industry as a whole.

The LDB will continue to adapt its operations to meet the changing demands of the increasingly competitive environment and align with the commitment to transparency and a more equal footing. With the clear separation of the LDB's wholesale and retail operations, there is different operational oversight for each division within a common corporate management structure. In order to meet the challenges of the evolving beverage alcohol landscape, both retail and wholesale operations will continue to monitor performance, anticipate the direction of the market through the use of predictive analytics and make changes in order to capitalize on the demands of consumers.

At the retail level, all BCLS are now subject to the 1km rule; however, they also have the option to offer services that align with private retailers. Changes in customer consumption, product mix, gross margins by product categories and the entry of grocery stores, will be closely monitored and adjustments made where appropriate to meet corporate targets.

The LDB's corporate management will monitor wholesale margins to ensure Government's revenue targets are protected. A new warehousing solution, anticipated in 2019, will drive greater efficiencies in product delivery and will better meet the demands of the years ahead.

Appendix A:

Hyperlinks to Additional Information

The LDB's organizational overview and corporate governance structure can be found here.